

Bell Atlantic
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Susanne Guyer
Executive Director,
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EX PARTE OR LATE FILED

July 28, 1998

Ex Parte

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

RECEIVED
JUL 28 1998
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: CC Docket Nos. 96-45, 97-160, and 96-262

Dear Ms. Salas:

On Friday, July 24, Mr. F. Gumper, Mr. E. Lowry, and I, representing Bell Atlantic, met with Ms. K. Brown, Chief of the Common Carrier Bureau, Mr. J. Schlichting, Mr. D. Stockdale and Ms. K. Schroder of the Common Carrier Bureau. The purpose of the meeting was to discuss Bell Atlantic's Modification to the Ad Hoc Proposal as filed with the Commission on May 15, 1998. Attached is a summary of the Bell Atlantic proposal that was used as a basis for discussion during the meeting.

Also discussed at this meeting was Bell Atlantic's access pricing flexibility proposal. The attached charts were referred to during the meeting.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Susanne Guyer'.

Attachment

cc: K. Brown
J. Schlichting
D. Stockdale
K. Schroder

Bell Atlantic's Modifications to the Ad Hoc Proposal

- Bell Atlantic's modifications to Ad Hoc's Proposal were filed at the Federal Communications Commission on May 15, 1998. The Bell Atlantic proposal provides a reasonable alternative to maintain high cost funding at the existing level (\$1.7B) as opposed to alternative proposals that suggest funding above \$6B. This proposal is consistent with Bell Atlantic's policy of developing a sufficient fund that is targeted to states. In addition, these modifications address significant cost differences among states and minimize the flow between the states.
- Attachment 1 provides a summary of the modified federal Universal Service Fund by state.

The following are the highlights of Bell Atlantic's proposed modifications to the Ad Hoc platform:

- Produces a fund size of approximately \$1.7B, which includes LTS, high cost and DEM. Ad Hoc's high cost proposal produces a fund size of approximately \$2.3B when Long Term Support (LTS) is added back into their high cost results.
- This plan uses a statewide weighted average of 50% actual cost and 50% forward-looking cost (a combined HAI 5.0a and BCPM 3.1).
 - Use of any one proxy model carries a significant risk of over-estimating or under-estimating the amount of high-cost support that is needed. (Attachment 3)
 - Averaging of the proxy models and combining with actual costs results in no one proxy model weighted more than 25% and smoothes out the variances between models.
 - Calculating statewide costs further mitigates the large variances associated with smaller geographical areas.
 - In contrast, the Ad Hoc proposal now uses the latest Hatfield Model (HAI 5.0a), which tends to underestimate forward-looking costs.
- Incorporates the current threshold cost benchmark of 115% of the nationwide average cost to determine today's high cost fund to recover all costs above the benchmark.. Revenues vary depending upon state pricing policies, while costs remain relatively stable. As such, the benchmark should be based on statewide average costs and not revenues.
- The plan provides for different transition plans for rural and non-rural companies.
 - Non-rural companies are defined as operating companies with greater than 100K lines at the statewide level and/or companies having 1 million or more lines at the holding company level.
 - The change in universal service funding for non-rural companies is phased in over three years. Current funding levels are not maintained indefinitely.

- Rural companies support continues at current levels for at least three years. The FCC will evaluate rural companies in a separate proceeding.
- The Bell Atlantic modifications will keep insular, high cost areas such as Alaska, Hawaii, Guam, Puerto Rico, Micronesia, and the Virgin Islands at current funding levels. The basis for this decision is that forward-looking models either do not calculate costs for these areas or have not yet incorporated the costs associated with all of their operating companies.

Bell Atlantic's modifications to Ad Hoc's Proposal provide the following benefits:

- Keeps the fund to a sufficient and manageable size, and would not place an excessive burden on ratepayers or cause massive revenue shifts.
- Better targets high-cost states.
- Maintains federal/state partnership.
- Provides for a transition to allow policymakers and companies to adjust.
- Creates a simple plan that can be implemented by January 1999.

50% Combined and 50% Embed. AMC
Benchmark = \$35 (115%)

BA Proposal

Attachment 1
USF Calculations USAC Loops

State	Current Support	Proposed Support	Change Over 3 Years
AK	\$62,597,604	\$62,597,604.00	\$0
AL	\$39,274,860	\$25,386,868.98	(\$13,887,991)
AR	\$70,701,192	\$95,034,805.20	\$24,333,613
AZ	\$28,723,608	\$10,189,632.00	(\$18,533,976)
CA	\$55,285,308	\$30,822,924.00	(\$24,462,384)
CO	\$45,893,436	\$41,073,084.00	(\$4,820,352)
CT	\$1,399,680	\$1,399,680.00	\$0
DC	\$0	\$0.00	\$0
DE	\$0	\$0.00	\$0
FL	\$24,235,140	\$16,963,092.00	(\$7,272,048)
GA	\$72,279,888	\$49,460,556.00	(\$22,819,332)
HI	\$897,516	\$897,516.00	\$0
IA	\$27,500,136	\$29,098,288.80	\$1,598,153
ID	\$28,936,632	\$22,774,255.92	(\$6,162,376)
IL	\$21,584,928	\$19,964,484.00	(\$1,620,444)
IN	\$16,500,984	\$15,503,484.00	(\$997,500)
KS	\$57,721,656	\$42,639,098.31	(\$15,082,558)
KY	\$25,611,804	\$43,266,057.12	\$17,654,253
LA	\$67,614,840	\$65,039,544.00	(\$2,575,296)
MA	\$417,600	\$417,600.00	\$0
MD	\$588,636	\$588,636.00	\$0
ME	\$16,551,732	\$34,744,957.02	\$18,193,225
MI	\$33,670,200	\$29,644,908.00	(\$4,025,292)
MN	\$37,414,656	\$33,343,980.00	(\$4,070,676)
MO	\$50,440,560	\$28,167,648.00	(\$22,272,912)
MS	\$28,165,488	\$101,906,173.71	\$73,740,686
MT	\$44,155,068	\$67,481,716.05	\$23,326,648
NC	\$40,577,496	\$22,666,872.00	(\$17,910,624)
ND	\$21,197,016	\$41,029,121.16	\$19,832,105
NE	\$19,706,664	\$44,781,344.10	\$25,074,680
NH	\$9,046,716	\$8,177,904.00	(\$868,812)
NJ	\$3,282,276	\$1,153,296.00	(\$2,128,980)
NM	\$35,243,244	\$37,201,343.40	\$1,958,099
NV	\$8,859,732	\$7,675,524.00	(\$1,184,208)
NY	\$37,931,772	\$24,083,412.00	(\$13,848,360)
OH	\$14,766,612	\$14,766,612.00	\$0
OK	\$59,899,752	\$45,769,176.00	(\$14,130,576)
OR	\$37,091,748	\$34,728,912.00	(\$2,362,836)
PA	\$25,552,656	\$15,280,380.00	(\$10,272,276)
PR	\$145,852,320	\$145,852,320.00	\$0
RI	\$0	\$0.00	\$0
SC	\$45,209,328	\$35,665,489.62	(\$9,543,838)
SD	\$16,806,792	\$44,630,724.15	\$27,823,932
TN	\$27,766,632	\$27,766,632.00	\$0
TX	\$124,215,300	\$91,359,504.00	(\$32,855,796)
UT	\$8,403,012	\$8,403,012.00	\$0
VA	\$13,671,552	\$8,995,884.00	(\$4,675,668)
VT	\$11,843,472	\$27,791,154.72	\$15,947,683
WA	\$43,494,372	\$17,281,152.00	(\$26,213,220)
WI	\$51,445,152	\$45,912,648.00	(\$5,532,504)
WV	\$21,184,260	\$64,393,745.31	\$43,209,485
WY	\$21,358,524	\$29,272,605.21	\$7,914,081
SI, DC & PR	\$1,702,569,552	\$1,713,045,361	\$10,475,809
GU	\$1,065,924	\$1,065,924	\$0
MCR	\$4,910,796	\$4,910,796	\$0
VI	\$16,245,684	\$16,245,684	\$0
Total	\$1,724,791,956	\$1,735,267,765	\$10,475,809

Impact Summary By State
Benchmark = \$35 (115%)

Attachment 1
USF Results

State	Increased Level of Funding
MS	\$73,740,686
WV	\$43,209,485
SD	\$27,823,932
NE	\$25,074,680
AR	\$24,333,613
MT	\$23,326,648
ND	\$19,832,105
ME	\$18,193,225
KY	\$17,654,253
VT	\$15,947,683
WY	\$7,914,081
NM	\$1,958,099
IA	\$1,598,153

State	No Impact on Funding
AK	\$0
CT	\$0
DC	\$0
DE	\$0
HI	\$0
MA	\$0
MD	\$0
OH	\$0
PR	\$0
RI	\$0
TN	\$0
UT	\$0

Impact Summary By State
Benchmark = \$35 (115%)

Attachment 1
USF Results

State	Decreased Level of Funding
NH	(\$868,812)
IN	(\$997,500)
NV	(\$1,184,208)
IL	(\$1,620,444)
NJ	(\$2,128,980)
OR	(\$2,362,836)
LA	(\$2,575,296)
MI	(\$4,025,292)
MN	(\$4,070,676)
VA	(\$4,675,668)
CO	(\$4,820,352)
WI	(\$5,532,504)
ID	(\$6,162,376)
FL	(\$7,272,048)
SC	(\$9,543,838)
PA	(\$10,272,276)
NY	(\$13,848,360)
AL	(\$13,887,991)
OK	(\$14,130,576)
KS	(\$15,082,558)
NC	(\$17,910,624)
AZ	(\$18,533,976)
MO	(\$22,272,912)
GA	(\$22,819,332)
CA	(\$24,462,384)
WA	(\$26,213,220)
TX	(\$32,855,796)

Non-Rural Holding Companies

1 Million of More USAC Loops
Nationally

Holding Company Name	USAC Loops
BELL ATLANTIC	38,042,224
SOUTHWESTERN BELL	31,551,489
BELLSOUTH	22,079,006
AMERITECH	19,686,102
GTE CORPORATION	17,403,205
US WEST	15,118,481
SPRINT	7,134,587
SOUTHERN NEW ENGLAND TELEPHONE	1,990,248
ALLTEL SERVICE CORP	1,634,560
PUERTO RICO TEL CO	1,188,082

100k - 1 Million of More USAC Loops
Nationally

Holding Company Name	USAC Loops
FRONTIER CORPORATION	976,115
CINCINNATI BELL	941,316
CITIZENS UTILITIES	864,563
PACIFIC TELECOM INC	514,808
TDS TELECOM	477,695
CENTURY TELEPHONE	468,815
ALIANTE COMMUNICATIONS CO.	269,410
COMMONWEALTH TEL CO	239,060
ANCHORAGE TEL UTILITY	157,299
NORTH STATE TEL CO	111,774
ROSEVILLE TEL CO	103,468
ROCK HILL TELEPHONE	101,747

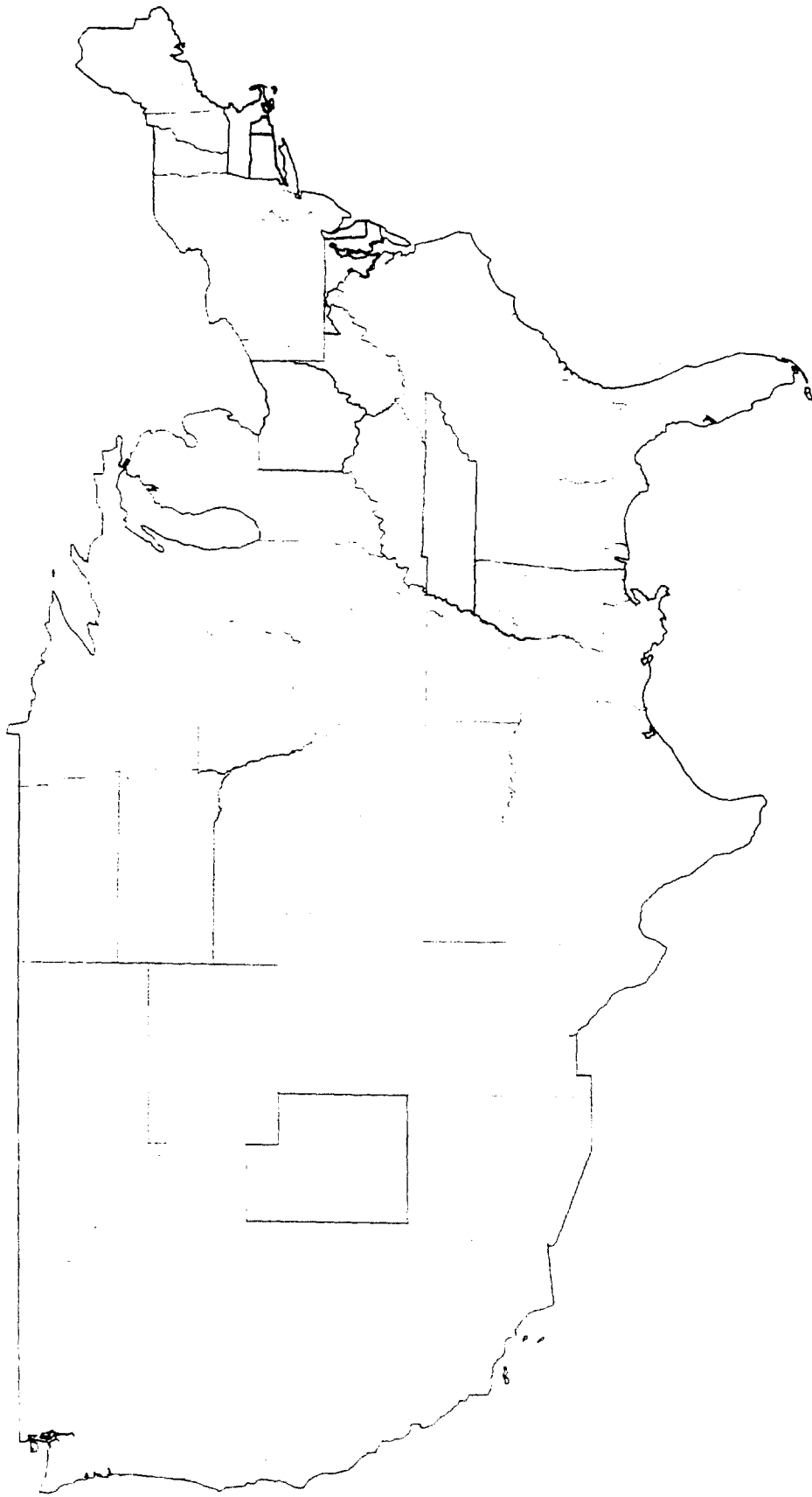
Comparison of HAI 5.0a and BCPM 3.1 Model Results By State

Attachment 3

State	Current Statewide Subsidy, Annual (USF, DEM, LTS)	BCPM 3.1 Cost Above 115% of Average	HAI 5.0a Cost Above 115% of Average
AK	\$62,597,604	\$0	\$0
AL	\$39,274,860	\$152,168,495	\$126,992,274
AR	\$70,701,192	\$218,950,068	\$116,228,336
AZ	\$28,723,608	\$0	\$0
CA	\$55,285,308	\$0	\$0
CO	\$45,893,436	\$0	\$0
CT	\$1,399,680	\$0	\$0
DC	\$0	\$0	\$0
DE	\$0	\$0	\$0
FL	\$24,235,140	\$0	\$0
GA	\$72,279,888	\$0	\$0
HI	\$897,516	\$0	\$0
IA	\$27,500,136	\$214,800,159	\$111,552,492
ID	\$28,936,632	\$49,199,630	\$59,249,906
IL	\$21,584,928	\$0	\$0
IN	\$16,500,984	\$0	\$0
KS	\$57,721,656	\$75,400,422	\$112,197,939
KY	\$25,611,804	\$134,792,841	\$63,198,388
LA	\$67,614,840	\$0	\$0
MA	\$417,600	\$0	\$0
MD	\$588,636	\$0	\$0
ME	\$16,551,732	\$54,065,484	\$58,096,845
MI	\$33,670,200	\$0	\$0
MN	\$37,414,656	\$45,280,654	\$63,792,371
MO	\$50,440,560	\$113,621,889	\$71,267,931
MS	\$28,165,488	\$216,088,713	\$142,120,937
MT	\$44,155,068	\$95,530,200	\$176,197,337
NC	\$40,577,496	\$0	\$72,106,943
ND	\$21,197,016	\$76,698,494	\$143,408,563
NE	\$19,706,664	\$74,939,491	\$149,462,106
NH	\$9,046,716	\$0	\$0
NJ	\$3,282,276	\$0	\$0
NM	\$35,243,244	\$43,262,499	\$85,345,666
NV	\$8,859,732	\$0	\$0
NY	\$37,931,772	\$0	\$0
OH	\$14,766,612	\$0	\$0
OK	\$59,899,752	\$151,393,528	\$119,521,033
OR	\$37,091,748	\$0	\$0
PA	\$25,552,656	\$0	\$0
PR	\$145,852,320	\$0	\$0
RI	\$0	\$0	\$0
SC	\$45,209,328	\$63,294,482	\$14,273,046
SD	\$16,806,792	\$94,709,493	\$138,214,018
TN	\$27,766,632	\$15,420,215	\$14,579,688
TX	\$124,215,300	\$0	\$0
UT	\$8,403,012	\$0	\$0
VA	\$13,671,552	\$0	\$0
VT	\$11,843,472	\$39,495,205	\$23,270,357
WA	\$43,494,372	\$0	\$0
WI	\$51,445,152	\$8,180,374	\$0
WV	\$21,184,260	\$144,567,554	\$100,460,881
WY	\$21,358,524	\$33,083,223	\$51,622,946
St, DC & PR	\$1,702,569,552	\$2,114,943,093	\$2,013,160,003

The subsidy amount for each state equals the respective proxy model's statewide cost in excess of 115% of the model generated national average. In addition, the subsidy was calculated using each model's individual

Funding Level Impact



Increased



PRICING FLEXIBILITY AND ACCESS REFORM



July 24, 1998

Access Reform and Pricing Flexibility

- 1997 Access Reform Order was only part of the job
 - » “In a subsequent order in the present docket, we will provide detailed rules of implementing the market based approach we adopt in today’s Order. That process will give carriers progressively greater flexibility in setting rates as competition develops, gradually replacing regulation with competition as the primary means in setting prices...”
 - » **This order was planned for the summer of 1997**

Pricing Flexibility Principles

- Decrease regulation as competition increases
 - » Allow deaveraged rates and targeted reductions as competition grows
 - » Provide a clear path for removal of services from price regulation

Bell Atlantic's Proposed Process For Pricing Flexibility

- A three phase framework under which pricing flexibility increases with competition
- ILECs may seek flexibility for a service group by a self-defined market area no smaller than a LATA
 - » Competition will evolve differently for different services
 - Transport - Special Access, Direct Trunk Transport & Tandem Switched Transport
 - Switched - multiline business, single line business & residence

Pricing Flexibility Framework

- **Phase I - Competitive Presence**

- » Barriers to competition removed
- » Competitor Operating
- » Moderate pricing flexibility

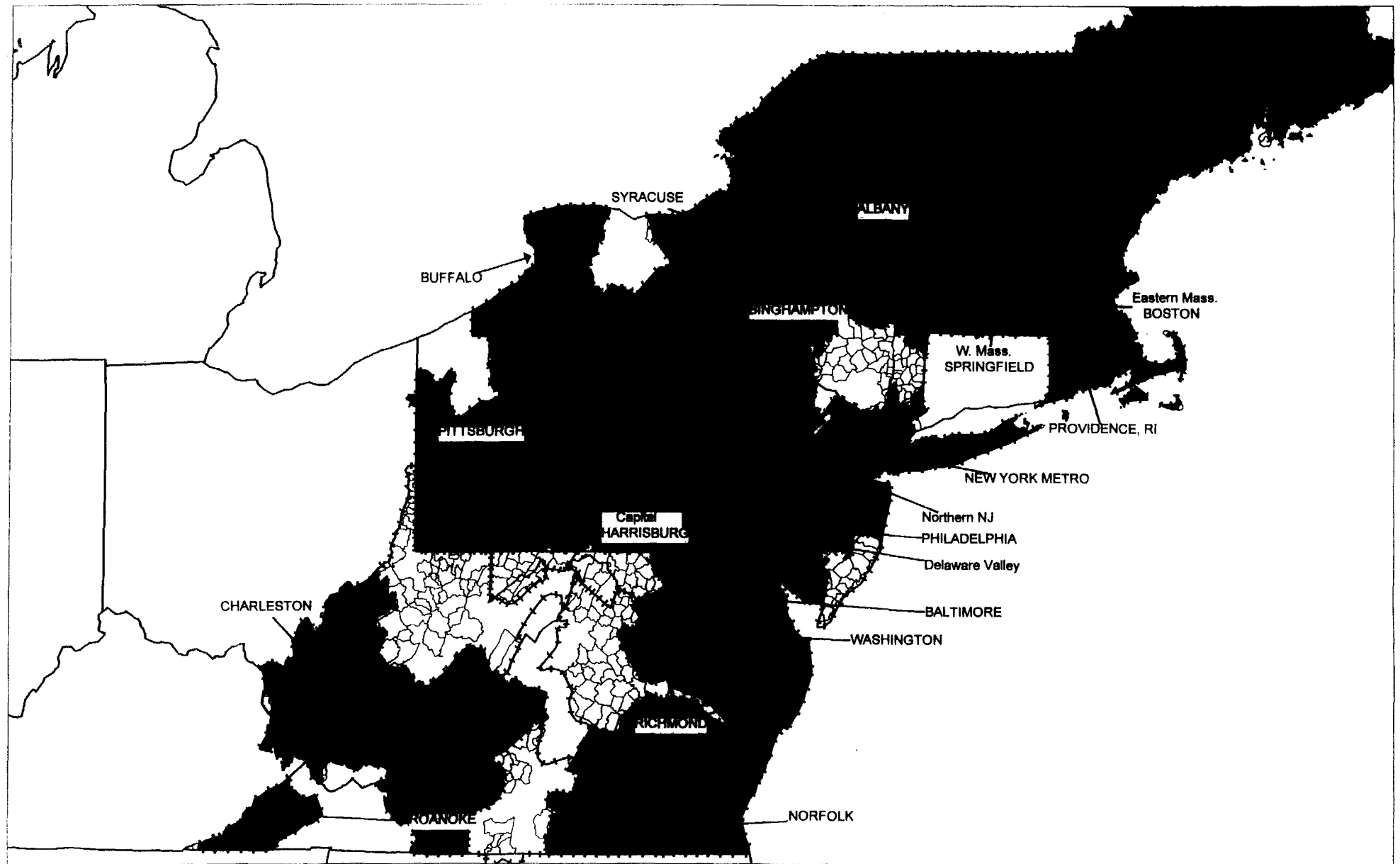
- **Phase II - Increased Competition**

- » Competitors serve or have access to 25% of market
- » Additional pricing flexibility

- **Phase III- Fully Competitive**

- » Competitors serve or have access to 75% of market
- » Removal of service from price regulation

Special Access



LATA



Wire Center



Phase III

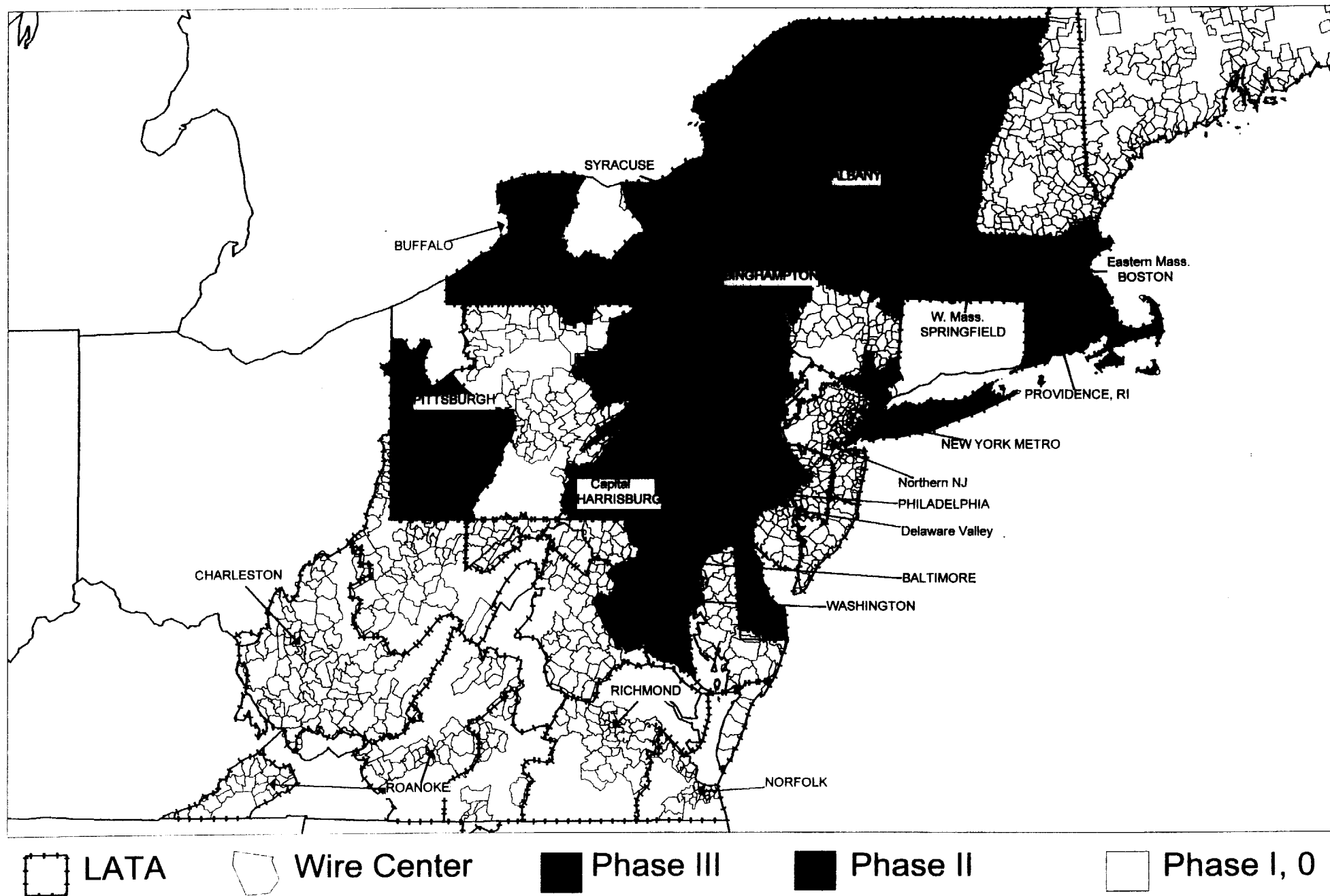


Phase II

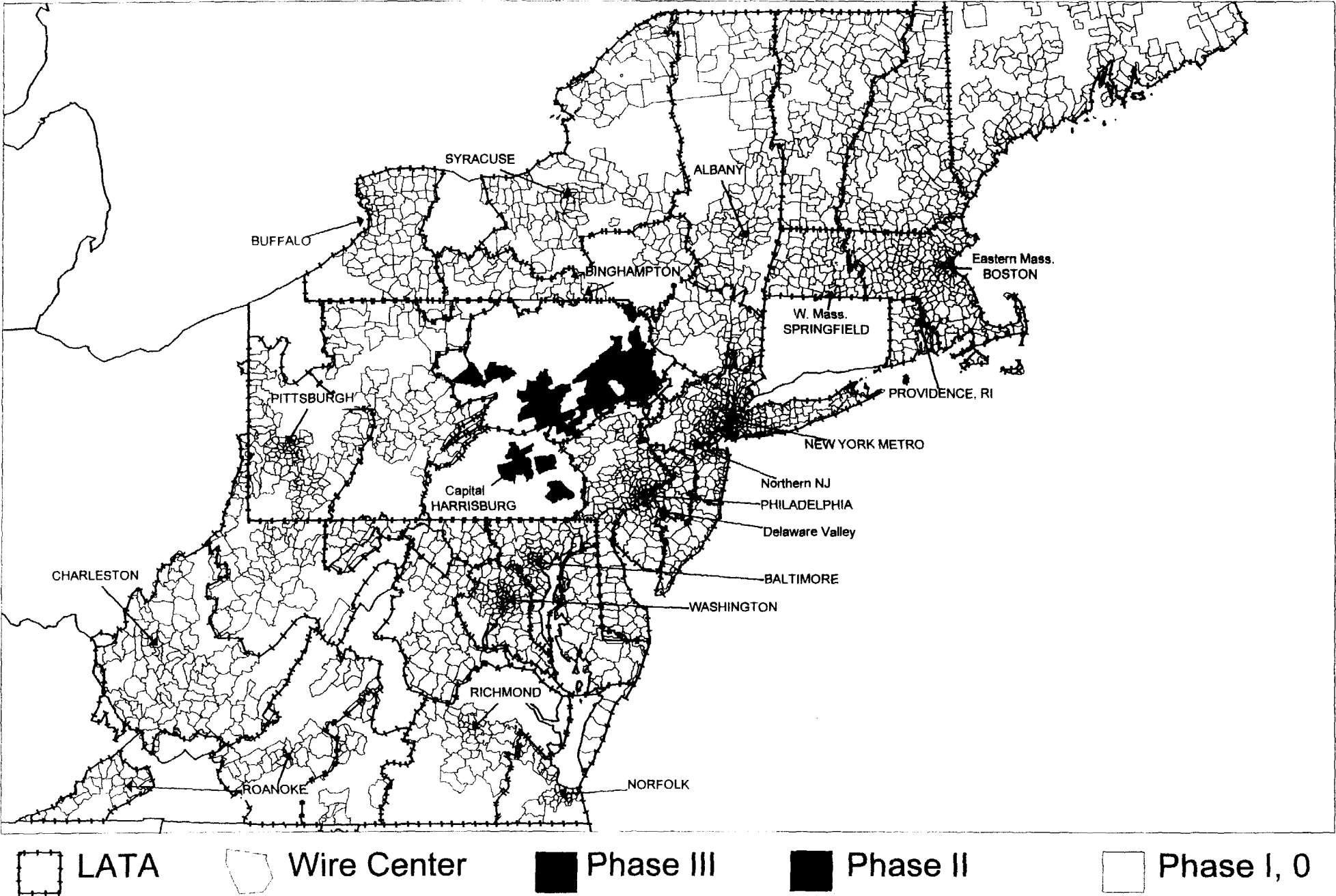


Phase I, 0

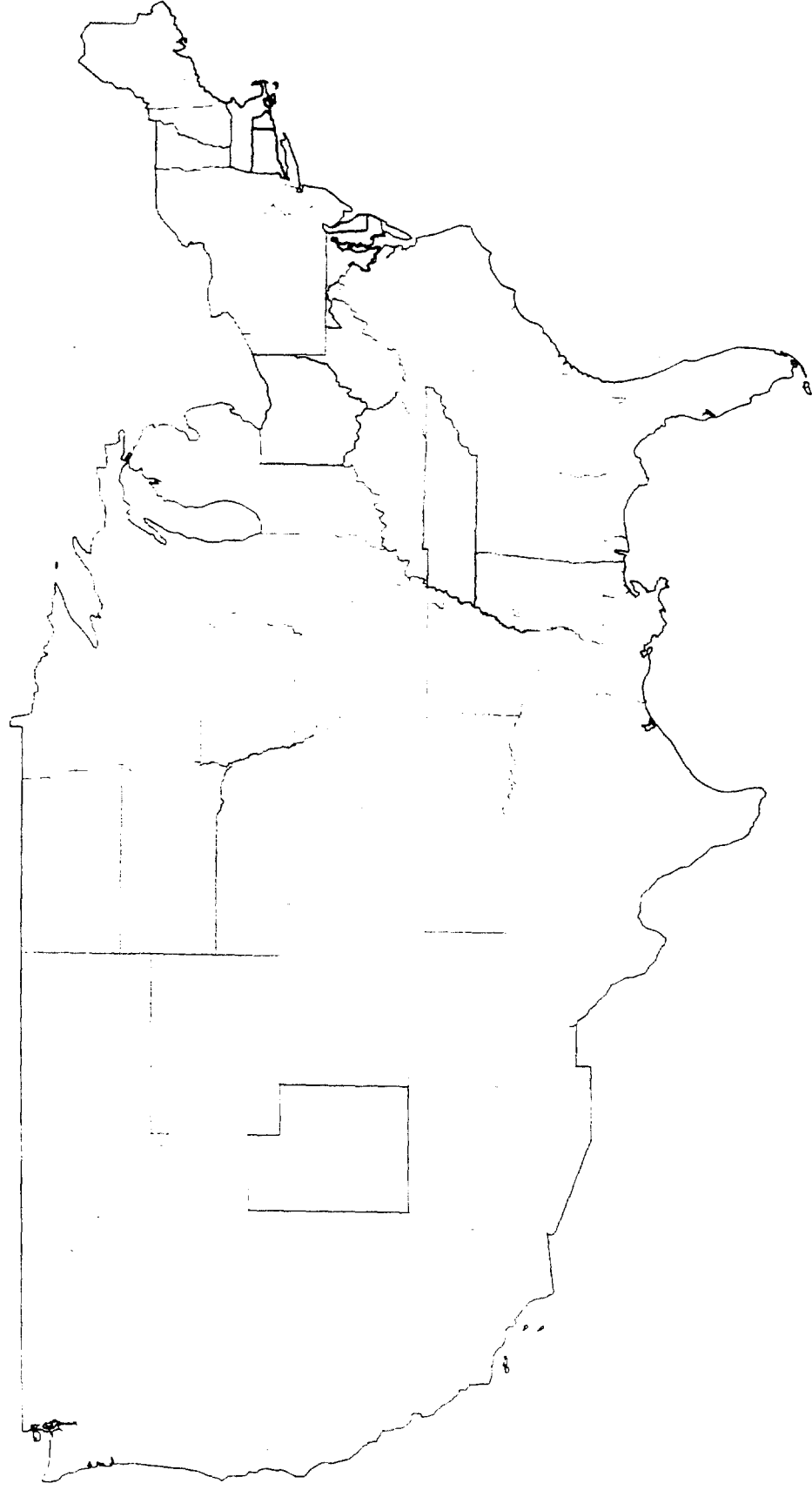
Multiline Business



Residential and Single Line Business



Funding Level Impact



Increased

